



Sun Metro Advertising Contract Audit Report

Issued by the
Internal Audit Office
January 30, 2009

**City of El Paso
Internal Audit Office
Sun Metro Advertising Contract Audit**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Sun Metro Department's advertising contract between the City of El Paso and AGi – Acme Graphix. We identified internal control breakdowns in the monitoring and implementation of the advertising contract by Sun Metro and AGi - Acme Graphix. Based on the results of the audit, seven findings were identified to indicate that improvements are needed in order to be in compliance with the advertising contract. All seven of these findings are considered significant in nature.

Listed below is the summary of the seven significant findings identified in this report.

1. Sun Metro does not have written policies and procedures related to contract monitoring and administration, resulting in a lack of monitoring for contract compliance.
2. We determined that there is an Accounts Receivable due to Sun Metro in the amount of \$78,189.42 for the period January 1, 2007 through December 31, 2008.
3. We determined that unallowable exclusions and deductions from gross and net revenues were being applied to individual advertising contracts by AGi – Acme Graphix.
4. Documentation provided by AGi – Acme Graphix was incomplete and Sun Metro failed to secure complete documentation. The following are the results of our review:
 - 14 of 104 contracts (13%) were not found in Sun Metro files.
 - One of 104 contracts (1%) did not have the client's signature.
 - 15 of 104 contracts (14%) were not dated.
5. There is a non-compliance and contract monitoring issue related to reporting requirements. AGi – Acme Graphix has not submitted a monthly confirmation schedule that should include the following:
 - The amount and description of any deductions from gross revenue.
 - The amount of revenues to be earned in the future under existing contracts.
6. Sun Metro is owed \$6,000.00 from AGi – Acme Graphix due to an agreed upon dispute resolution that occurred in January 2007. In addition, AGi – Acme Graphix owes \$425.00 for paint and finish damage that occurred to a bus during a bus wrap removal.
7. AGi – Acme Graphix presented supporting documentation for contracts that had defaulted. The total bad debt burden when allocated between Sun Metro and AGi – Acme Graphix is \$9,803.33 and \$8,575.83 respectively.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

**City of El Paso
Internal Audit Office
Sun Metro Advertising Contract Audit**

BACKGROUND

Sun Metro is a City Department responsible for providing mass transit service within the City of El Paso, Texas and surrounding areas. Established in 1977, Sun Metro's fixed route system consists of 65 separate routes covering a 247.4 square mile service area extending throughout the City of El Paso as well as into El Paso County.

Sun Metro presently uses a total of 149 vehicles for its fixed route services with 134 forty – foot passenger coaches, 15 smaller vehicles (Bluebirds).

In April of 2003 the City of El Paso issued a solicitation of offers for "Exterior Bus & Union Plaza Kiosk Advertising Services – Sun Metro". The term of the contract was for three (3) years with two (2) one (1) year renewal options. AGi – Acme Graphix was awarded contract #2003-159R.

The general requirements included the following:

1. The Contractor shall have exclusive rights to place Sun Metro approved advertising upon Sun Metro's fleet of buses and on the 11 kiosks located in the Union Plaza area.
2. The Contractor shall enter into contracts with advertisers for Sun Metro exterior bus and Union Plaza kiosk advertising.
3. Sun Metro reserves the right to use any advertising space for its exclusive use for any advertising or promotion or purpose it deems to be in the interests of Sun Metro.
4. Space availability for advertising on the Sun Metro fleet and within Union Plaza may change during the period of this agreement.
5. Performance of contract shall be for a period of thirty – six (36) months with two (2) one year renewal options.

The audit of the Sun Metro Department's advertising contract between the City of El Paso and AGi – Acme Graphix was scheduled at the request of the City Attorney's Office.

SCOPE AND METHODOLOGY

The audit objectives were to conduct audit work to ascertain if AGi – Acme Graphix was:

1. Meeting performance measures as outlined in the contract with the City of El Paso.
2. Adhering to compliance and regulatory provisions in the contract with the City of El Paso.
3. Accurate with its remittances and payments to Sun Metro.

The audit consisted of interviews with Sun Metro personnel and AGi – Acme Graphix personnel. A review was conducted of the Sun Metro Department's advertising contract between the City of El Paso and AGi – Acme Graphix, documents, reports, and data.

The audit period covered January 1, 2007 to December 31, 2008.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

Finding 1

Contract Monitoring - Sun Metro

Sun Metro does not have policies and procedures in place related to contract monitoring.

- There is a lack of contract monitoring in the following areas:
 - Reviews are not performed to ensure that AGi - Acme Graphix submits all required reports such as a confirmation schedule.
 - Reviews are not performed to ensure the accuracy of the reports that AGi - Acme Graphix does submit.
 - There is no tracking of advertising installation dates and removal dates.
 - There is no tracking of credits due to bus down time.
 - Records are not maintained in one centralized location.
 - Payments received are not compared against existing contracts.

Recommendation

Sun Metro should develop and implement policies and procedures related to advertising contract monitoring.

Sun Metro Management’s Response

Procedures did exist. Revised procedures have been developed for the new contract.

Responsible Party

Business and Finance Manager (until revenue accountant is hired).

Implementation Date

Upon award of advertising contract.

The Chief Internal Auditor’s Response

The existing procedures submitted by Sun Metro documented the process of handling AGi – Acme Graphix accounts receivable only. The existing procedures do not address the monitoring of the contract. The revised procedures contain more detail processes, which should improve the process.

Finding 2

Sun Metro Accounts Receivable

The accounts receivable amount for advertising revenue was recalculated by reviewing the following documentation provided by Sun Metro and AGi – Acme Graphix for the period January 1, 2007 through December 31, 2008:

- AGi – Acme Graphix Monthly Synopsis Report
- Individual AGi – Acme Graphix Advertising Contracts
- Copies of Payments Submitted by AGi - Acme Graphix

Based on the recalculation, we have determined that there is an accounts receivable balance due to Sun Metro in the amount of \$78,189.42.

Recommendation

AGi - Acme Graphix should submit payment for the balance due of \$78,189.42 plus any applicable interest charges.

Sun Metro should follow up on collection of the balance due.

Sun Metro Management's Response

Sun Metro should follow up on collections, but there were communications issues that prevented accounting staff from resolving many of these issues with the customer. Revised policies and procedures address and correct this deficiency.

Responsible Party

Business and Finance Manager (until revenue accountant is hired).

Implementation Date

Upon award of advertising contract

City of El Paso
Internal Audit Office
Sun Metro Advertising Contract Audit

Finding 3

Unallowable Exclusions and Deductions

A review of exclusions and deductions from gross and net revenue was performed. The results of our review indicate AGi - Acme Graphix is non – compliant with the revenue compensation structure, and Sun Metro did not ensure that only allowable exclusions and deductions were used by AGi - Acme Graphix. The following are unallowable:

AGi - Acme Graphix collects production and installation fees but excludes these fees from their gross advertising revenue. The production and installation fees are based on:

- Contract length
- Ad quantity

For 1/1/2007 through 12/31/2008 these fees totaled \$131,460.05. Sun Metro's allocation of the revenue would have been \$69,549.31.

AGi - Acme Graphix provides client discounts based on:

- Contract length (i.e., 6 months 10%, 12 months 15%)
- Ad quantity (i.e., 5-23 ads 10%, 24 or more ads 15%)
- Renewals (i.e., 10%)
- Negotiation (i.e., Amount based on negotiated rate)

Recommendation

AGi - Acme Graphix should only use allowable exclusions and deductions when calculating the gross and net revenues for advertising contracts. Sun Metro should review contracts to ensure that only allowable exclusions and deductions are used by AGi - Acme Graphix.

Sun Metro Management's Response

Revised policies and procedures address and correct this deficiency.

Responsible Party

Business and Finance Manager (until revenue accountant is hired).

Implementation Date

Upon award of advertising contract

The Chief Internal Auditor's Response

In discussion with the City Attorney's Office, it was the intent of the contract to allow AGi –Acme Graphix to charge advertisers the production and installation fees. These fees were not subject to allocation between Sun Metro and AGi – Acme Graphix.

City of El Paso
Internal Audit Office
Sun Metro Advertising Contract Audit

Finding 4

Support Documentation

Based on a review of the documentation submitted to Sun Metro by AGi - Acme Graphix for the period January 1, 2007 to December 31, 2008. We found that the documentation was incomplete. The following are the results of our review:

- 14 of 104 contracts (13%) were not found in Sun Metro files.
- One of 104 contracts (1 %) did not have a client signature.
- 15 of 104 contracts (14%) were not dated.

Recommendation

AGi - Acme Graphix should submit support documentation for all advertising contracts.

Sun Metro should ensure that they maintain complete and accurate records for all advertising contracts.

Sun Metro Management's Response

New policies and procedures address and correct this deficiency.

Responsible Party

Business and Finance Manager (until revenue accountant is hired).

Implementation Date

Upon award of advertising contract

City of El Paso
Internal Audit Office
Sun Metro Advertising Contract Audit

Finding 5

Reporting Compliance

AGi - Acme Graphix has not complied with all of the reporting requirements. A monthly confirmation schedule has not been submitted for the time period reviewed that included:

- The amount and description of any deductions from gross revenue
- The amount of revenues to be earned in the future under existing contracts.

Recommendation

AGi - Acme Graphix should comply with all reporting requirements.

Sun Metro should ensure all reporting requirements are met.

Sun Metro Management's Response

Revised policies and procedures address and correct this deficiency.

Responsible Party

Business and Finance Manager (until revenue accountant is hired).

Implementation Date

Upon award of advertising contract

City of El Paso
Internal Audit Office
Sun Metro Advertising Contract Audit

Finding 6

Other Outstanding Issues

There is an amount of \$6,000.00 due Sun Metro that is outstanding from the resolution agreement between the City of El Paso and AGi – Acme Graphix in January of 2007.

In addition, damage to the paint finish on one bus occurred due to the vinyl bus wrap removal. Sun Metro informed AGi - Acme Graphix of the damage and supplied a damage estimate in the amount of \$425.00 for reimbursement. AGi - Acme Graphix has not disputed the allegation nor have they responded to the request for reimbursement.

Recommendation

AGi - Acme Graphix should pay its \$6,000.00 obligation as agreed to in the resolution agreement.

AGi - Acme Graphix should also reimburse Sun Metro \$425.00 for repair costs related to damage caused during the removal of vinyl bus wraps.

Sun Metro Management's Response

No response required from Sun Metro.

Responsible Party

n/a

Implementation Date

n/a

City of El Paso
Internal Audit Office
Sun Metro Advertising Contract Audit

Finding 7

AGi - Acme Graphix Bad Debt

Upon the request of the Internal Audit Office AGi - Acme Graphix presented supporting documentation for contracts that had defaulted. A review of the documentation resulted in an amount of \$18,379.16 being considered uncollectable. The bad debt should be allocated as follows:

- Sun Metro's share \$9,803.33
- AGi - Acme Graphix's share \$8,575.83

Recommendation

Management should ensure amounts of bad debt are considered during settlement negotiations.

Sun Metro Management's Response

Will be taken under advisement.

Responsible Party

Business and Finance Manager (until revenue accountant is hired).

Implementation Date

Upon settlement of the claim filed by AGi – Acme Graphix with the City Attorney's Office.

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this audit, there were various areas that Sun Metro and AGi – Acme Graphix were found to be deficient.

- Sun Metro was deficient in the following areas:
 - Developing and implementing policies and procedures for contract monitoring.
 - Performing reviews to ensure contract compliance and to verify the accuracy of the data included in submitted reports and remittances
 - In following up on issues that required attention.
- AGi - Acme Graphix was deficient in the following areas.
 - Submitting all required reports and support documentation with remittances.
 - In complying with certain contract requirements such as revenue compensation structure and bus damage repair.
 - In fulfilling dispute resolution obligations.

An audit of the documents provided by AGi – Acme Graphix and Sun Metro revealed inaccuracies. There were 30 cases where the documentation regarding an advertising contract was incomplete or missing. These inaccuracies prompted a recalculation of the accounts receivable for advertising revenue, based on documents provided by AGi and Sun Metro, it was determined that Sun Metro is due \$78,189.42 from AGi – Acme Graphix.

We wish to thank the Sun Metro and AGi - Acme Graphix management and staff for their assistance and courtesies extended throughout this audit.

Signature on File
Edmundo S. Calderon, CIA, CGAP, MBA
Chief Internal Auditor

Signature on File
Daryl Olson
Senior Auditor

Distribution:

Legislative Review Committee, Fiscal Affairs, Management Support, and Internal Audit
Joyce Wilson, City Manager
Jane Shang, Deputy City Manager
William F. Studer, Jr., Deputy City Manager
Charlie McNabb, City Attorney
Jay Banasiak, Sun Metro Director